Telkom

Conference call transcript

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ANNUAL RESULTS ANALYST CALL

Operator

Good day, ladies and gentlemen, and welcome to everybody who has joined. Welcome to the Telkom S.A. Ltd.'s annual results presentation. All attendees will be in listen-only mode. A question and answer session will follow the full presentation. If you should require operator assistance during the call, please press * and then 0 on your telephone keypad. Please note that this event is being recorded. I would now like to hand you over to your host, Mr Serame Taukobong. Please go ahead, sir.

Serame Taukobong

Thank you kindly, Judith. Greetings all and welcome to our F25 results presentation. It has been a long day. With me in the room, Nonku, our Group Financial Officer, the IR team, as well as Beauty, still in her role as Head of Strategy. In 2023, Telkom embarked on a strategy to pursue our vision of serving as the backbone of South Africa's digital future as an InfraCo. Since then, as One Telkom, we have focused relentlessly on delivering hard results through this clarity of purpose.

We reshaped our business to make the most of our strengths. We refocused our leadership and management structure to deliver on our commitments to our shareholders. We set clear goals and key performance indicators for the group and its operating divisions. Today, our 2025 full year results demonstrate that the competent execution of our data-led strategy is meeting and in some cases exceeding expectations.

But that is, we still have challenges in some areas. What's encouraging is that now we have a wave of momentum for Telkom to thrive in the complex operating environment ahead. We have good reason to be proud of the results and quietly confident about the future. Some key highlights that we shared earlier on this morning. Strong performance drove group revenue up by 3.3% to R43.9 billion and enhanced our EBITDA growing by 25.1%. EBITDA margin expanded by 4.7 points to 26.9%, a clear signal of stronger operational leverage.

Sustained cash generation resulting in R2.4 billion growth in free cash flow generated. Focus on addressing our debt with net debt to EBITDA reduced to 0.66. We completed a Swiftnet sale and have had cash proceeds of R6.6 billion. This was done within the timeline as communicated to the market. The focus on execution and strong performance has resulted in us creating shareholder value through the resumption of dividends of 261 cents per share. I will now hand over to the operator for questions and answers. Thank you.

Operator
Thank you sir. Ladies and gentlemen, if you'd like to ask a question, please press * and then 1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press * and then 2 to exit the question queue. Just a reminder, if you'd like to ask a question, you're welcome to press * and then 1. Our first question comes from Preshendran Odayar of 361. Please go ahead.

Preshendran Odayar
Thank you very much. Congratulations on the results, guys. A very good set of numbers. I'm going to try my luck with three questions if I can. I just want to get some understanding on what your sustainable free cash flow generation would be taking out any of the one-offs and the adjustments and the property sales. And there's a lot of adjustments in the numbers between adjusted and headlines. So, I'm just trying to gauge, if I had to have a clean set of numbers without any one offs, what would my fee cash flow be for Telkom Group? The way I've calculated is around R2.1 billion. But Nonku, you probably have better numbers on that.

Then the other two are related to mobile. I just want to get a sense of what your capex intensity or capex levels going forward is going to be for mobile. R3 billion seems like a little bit, but you managed to still eke out a very good top line growth from that R3 billion of capex. But if you can give us a bit of a guidance of what we can expect for capex, for mobile in specific, in terms of either an absolute number or an intensity.

Then the last one on mobile is, I just noticed that staff costs and service fees had massive increases in the year. I think staff costs for mobile went up by 50% and service fees 23%. Can you just share, are there any one-offs there, or what's driving those increases? Thanks.

Nonkululeko Dlamini
All right, Presh, thank you very much. And maybe let me focus on the free cash flow number. The way we arrive at the free cash flow number, if you look at our slide deck, there's probably two critical slides to be utilised. Slide 27 that gives you a sense of the EBITDA number, which is then the starting point when we talk about the free cash flow number. And the number we utilised in the EBITDA line is R11.792 billion, which can be rounded up to R11.8 billion.

To just give you a detail of what is in that number, so that when you move from there and say what is the sustainable free cash flow number, R11.792 billion from the EBITDA number is what we call adjusted EBITDA. So, it has taken the EBITDA in the financials, taken out the Swiftnet operations, because it's focusing on underlying operations and continuing operations. It has also taken off… if you recall when we reported H1, we were closing out the Telkom Retirement Fund transition from being a defined benefit fund to a defined contribution fund. What that meant is that there was an expense we had to pay of just over R600 million. So, we've already adjusted that out as a once-off.

The number that is in the EBITDA of R11.792 billion is in relation then to the property sales. Because we said in that in the EBITDA number we would have made the probably the most significant property sales of about R654 million impact in the financial year. So, if you take that as the probably the only once off that is in the EBITDA line, and then move to your free cash flow details where you say if I start with that EBITDA number and then work out from EBITDA to remove non-cash items and bring in working capital and so on, what we are then saying is that the only element that you have to consider going forward is the fact that with Swiftnet now being external, there is a lease [?] cost that we're going to have to pay which will form part of the free cash flow calculations going forward because Swiftnet is in future years going to be what we use to eliminate internally is going to be an external cost. So, it's largely a clean number as a starting point except that from the property sale there's an element of a bigger impact that we have in there.

Then as well, looking forward, we said finance costs are at R2 billion, and we have now paid as a post-balance sheet event in May, or by May, because we had April and May, the R4.75 billion. And if you were just to look at that as the reduction in debt, it will have a positive impact in the cost of financing costs. So, that is going to be a positive impact.

But the way we are looking at guiding free cash flow going forward then is to say, well, we have this performance of underlying business. We are guiding a mid-single-digit growth in revenue. We are guiding margin expansion over the three-year period. And how we are looking at it is an improvement if you like on the free cash flow which will be driven by the performance after catering for all the things I've mentioned. And that should probably be the way you look at the free cash flow. So, it's already a fairly clean number because all these discontinuing operations and so on are already included in the number we are reporting on the free cash flow.

Serame Taukobong

Presh, in terms of the capex for mobile, it will I think range in the R2.6 billion to R3 billion for mobile. I think that capex bracket is pretty much where we are comfortable with. Remember as I always say you must look at the capex and mobile in two areas. There is the amount that we capitalise, which is in that R2.6 billion to R3 billion. Then there's a portion for backhaul, which then sits in the other income, which is another close to R2.3 billion to R2.6 billion, which is then what is in opex, which is the backhaul that they then charge from Openserve.

We're quite comfortable with that range because remember, they spend their CAPEX as they see the demand or the increase on roaming. And with the nature of the roaming contract, it then allows us to smartly spend the capex. So, that we're comfortable with the range of the capex. The increase you see in staff is as the result of the good performance from the mobile team. They actually got then the larger portion of the STI. So, that is driven with the large increases then that you see there. It is the bonus that was paid to the consumer team as a result of the good performance that they drove this year. I hope that… Oh, service fees. It is the increase of electricity as well as the growth of the footprint of the mobile network. I hope I've covered you there, Presh.

Preshendran Odayar

Yeah, perfect. Thanks very much, Serame and Nonku.

Operator

Thank you. Our next question comes from Jono Bradley of Absa. Please go ahead.

Jono Bradley

Thanks very much for the opportunity to ask questions and congrats on a good set of results. Just two from me please. It's a follow-on from Presh's question and Nonku mentioned externalised lease costs. Is it possible that you could give us a sense of what that annualised lease cost figure would have been in FY25 had you disposed of Swiftnet at the start of the year? And then secondly, just around Telkom Mobile and the prepaid pricing, given that part of Telkom Mobile's period growth has come from a pricing strategy that's offered to lower effective rates compared to peers. How do you view the recent prepaid bundle price increases that narrow this discount? Does this signal a shift that the sustainability of Telkom Mobile's current market share is at that sustainable level, or is it part of a broader strategic shift in response to a changing competitive landscape? Thanks.

Serame Taukobong

Thanks, Jono. I think if we look at the pricing increases, the delta or certainly the gap that we have maintained is still relatively quite robust. The blanket price increases that we've seen, Jono, at headline retail tariff have not actually touched where Telkom Mobile remains quite competitive, which is at your lower end high volume bundles. So, your lower end bundles where Telkom Mobile is quite competitive. Firstly, some of those price bundles is where competitors don't even offer propositions. So, we still remain quite competitive in there. And in fact, if you notice the price changes, competition hasn't even taken price increases in those spaces. So, we still remain competitive in those because that's where the market sweet spot is at. So, it is those customers who are quite price sensitive, where we have been quite prudent in how we've managed our price increases based on affordability.

Operator

Ladies and gentlemen, please remain on line. We seem to have lost the line for the main speaker. Please remain on line. Thank you. We can hear you now, sir. You can go ahead. We lost you a couple of seconds ago.

Serame Taukobong

Okay. Jono, where did I lose you?

Jono Bradley

So, you haven't touched the price points at the very low end of the market in competitors.

Serame Taukobong

That is where we remain competitive. So, the price increases we took were reflected of where our competitors and our customers are looking for the ideal price points. So, we still remain quite competitive in our prepaid price positioning, Jono.

Jono Bradley

That's helpful.

Nonkululeko Dlamini

Yes. Thanks. On the impact of the exit of Swiftnet, in fact, how we've looked at it, Jono, is we would have had – and I think the one slide to use is your slide number 32 in our presentation, where if you look at the 2025 reported continuing headline ending special of 467, which indeed will have a little bit of impact from the property sales that we mentioned. What we have then done is to say if the Swiftnet impact was built in, there's about 51 cents per share that you would have to see as an impact in 2025.

Now, going forward there'll be inflationary impact that will come in and impact the future outlook on those numbers. So, an overall impact is about 51 cents per share, which is coming from the fact that you do not have the inflows that were external, but also you are taking on the external leases an expense into your books, which in the previous would be eliminated.

Jono Bradley

Is that an aggregated impact then? So, the 51 cents per share is both the lost Swiftnet external revenue as well as then the externalised cost impact. And is that an after-tax impact then?

Nonkululeko Dlamini

So yes, it would be the after tax impact.

Jono Bradley

Okay.

Operator

Ladies and gentlemen, just a reminder, if you would like to ask a question, you are welcome to press * and then 1. Our next question comes from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon and congrats on your set of results. There are two questions for me. I just wanted to confirm the EBITDA margin guidance. Is that purely operational? Does it exclude profit on sale of properties? And then secondly, just a question on the impairment line. It looks to me as though the impairments are largely in the mobile business and presumably this will relate to the post-paid revenue line. So, it just looks to me as though those are quite high as a percentage of post-paid revenue. And is there anything you can tell us about how that's being managed and whether that could go down further?

Nonkululeko Dlamini

Right, maybe let me start with the EBITDA guidance. And yes, Jonathan, it is now us looking at the continuing underlying performance of the business. And you may recall that when we met you in the last three or four quarters, Serame has indicated to the market that we are wanting to manage costs in the business through the cost optimisation programme but also continue to drive revenue up. So, it will really be a clean number because the adjusted number has to take out the impact of the once-off if you look at the exit in the investment property which is not going to continue.

We will continue to optimise property and sell some, but never to the extent probably in the near term that we've had in this financial year. So, the guidance we are giving is going to be driven by margin expansion from the continuing underlying business from the three parts, which is consumer, BCX. And they will all contribute in their various ways because we are looking at this bottom up.

And we spoke about mobile continuing to show growth and margin expansion. We spoke about the 28% by 2028 expectation of the mobile business. And then as we optimise in the Openserve space, we are driving them towards the 35% level. And then the BCX, the 12.5% that we are guiding. And I think that the impact will come indeed from a continued cost discipline while we drive for continuing growth. And it's important to say cost discipline, not just cost cuts. We need to make sure we're spending in the right places for business growth. Now, in terms of the second question around the impairment issue, this is an area that we have focused on in the last few years in the consumer space and it will contribute. Maybe, Serame, you can start and then I'll add.

Serame Taukobong

Yes so as we've continued to mention, the impairments – you're right, Jonathan – is in the post-paid space. And this has come down. I think we're reporting 20% due to continued stricter credit vetting. As we've indicated, we're now in vetting renewing customers in the post-paid line to make sure that we reduce the risk of that. So, it has been the team being far more prudent, particularly in how we manage our post-paid customers. So, yeah. I hope we've covered you there, Jonathan.

Jonathan Kennedy-Good

Yes, thank you.

Serame Taukobong

Perfect.

Operator

Our next question comes from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Thank you very much. Well done on a good set of numbers. I've got a couple of questions. The first one is about, you know, you were talking about the roaming arrangement changing further and possibly getting MOCN roaming as well if I remember correctly. Can you give us an update on that and what sort of benefits will accrue to you when you and if you do adopt that? That's the first question.

Can you also give us a sense of colour on the prepaid and post-paid price ups that you're planning or have put in in the last few months? That's the second question. And also, lastly, on the fibre to the home side of things, overseas as well as locally, there are some distressed assets and the business model doesn't seem to work as well as it did in the past because people are not getting their connection rates up to a level where it can internally fund the growth. Are you seeing distress level assets in the market because of this? Thank you.

Serame Taukobong

Thank you, Myuran. So, MOCN testing, the team has now completed. And I think they are in the final stages now of finalising that contract with Vodacom. I think two things. So, it's definitely the continued better utilisation of capex. We do hope that in the long term particularly that it does allow us to coactively utilise both our spectrum. It's really the net impact of how we just bring those costs down because the net offset of those shared costs and shared revenues. The net impact of that is to continue driving that cost of revenue to that single digit.

Now, as I said, we're getting closer to below 5% and I think we'll keep it there to manage the increase in the roaming traffic. Post-paid price ups, I think we did indicate the post-paid price up, which we followed the market. And I think that has been pretty much in line with what the market has done. If you look at prepaid, as I answered, I think it was Jono's earlier question, we also followed the market, but we were selective in that the prepaid price up was more in your higher end LTE propositions, pretty much like all the rest of the competition.

We were selective in that where we saw in the price points where our consumers, particularly lower end bundles, were more challenged, we did not take significant price increases. FTTH, you're absolutely right, we do see instances of operators under challenge. Our approach in the market, as you've seen, we did continue to increase and pass more homes, but maintained that high connectivity rate. We passed over 200,000 homes, but equally connected over 100,000 homes.

So, if we actually had to look at the number of homes passed and the number of homes connected in a year, that ratio actually technically is higher than 50% because we continue to go back and look at the homes that were passed previously to ensure that we connect and maximise that connectivity ratio. So, for us, it's that prudent approach of, as I've said, avoiding the spray and cook, but driving that high connectivity ratio without the land grab type approach. I hope I've covered you there, Myuran.

Myuran Rajaratnam

Yes, thank you.

Operator

Our next question comes from Madi Singh of HSBC. Please go ahead.

Madhvendra Singh

Yes, hi. Thanks for taking my question. Just to follow up on the impairments. I was just wondering about your views on the credit quality of customers going forward. Are you expecting continued drop in the impairments? And this is especially relevant given the macro situation in the country. So, if you could comment on that. And related with that is what kind of working capital trends are you expecting going forward? Do you expect any improvements or deterioration? If you could comment on that. Thank you.

Serame Taukobong

Thank you. I think in terms of the impairments, it's a continuous piece of work. As we've said, we've seen a 20% improvement year on year. It's a balance of two things. One, we have matched our devices to affordability of customers. That's the first point. Number two, we've also ensured that our products, in terms of the packaging of our products, is aligned to the device. So, we will not sell a high-end device with an entry-level price point. So, that's also important for us to manage the margin and affordability of the device. Now, obviously as economic conditions improve, there's a lag in how we see customers behaving. Now, typically what we're seeing, for example, is that customers are taking longer term contracts, so your 36 month contracts, and more favourable, the shorter term contracts. Customers are quite wary of their pocket, which also means that, I guess, their credit quality is improving with time as customers are being more prudent in their choices. And I think that's key for us.

Working capital is one of the pillars of our structural cost-cutting initiatives and is something that we will continue to manage as part of the ongoing projects. As we said, our approach to cost-cutting has not been tactical. We've been looking at long-term structural projects. And working capital cost management is one of the key pillars for that and we will continue to manage that. I don't know if you want to add more.

Nonkululeko Dlamini

Yes, absolutely, Serame. And I think we've come a long way in getting this improvement. And we think we are moving towards the optimal level and we're looking again at each business and its operations in terms of their working capital requirements and how efficient they are. So, where we are in terms of debt management we will continue to push for collections as efficiently as possible. We want to drive optimal level of inventory which actually has also contributed to the move that we are seeing. So, we think it will hold and we will continue for our post-paid book to do debtors factoring at some sustainable level that we've seen coming through. So, there are still opportunities, but I think it's a significant turnaround in terms of working capital management if you compare it to the movements we saw two, three years ago in 2023 and so on.

Serame Taukobong

I hope we covered this one.

Madhvendra Singh

Yes, thank you.

Operator

Thank you. Our next question comes from Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon. Thanks for the opportunity to ask questions. Many of my questions are already asked, so I'll just ask two. Just firstly, in the fixed data disclosure, fixed data revenue disclosure, you split it up into fibre related and other. If I look at the other, year-to-date for the third quarter you recorded R881 million and for the full year R903 million. So, that would imply a very small number for Q4. So, I just wanted to check if that's correct and if that's related to the declining ADSL subs that you've been reporting consistently over the year.

And then secondly, just on free cash flow, I was just hoping Nonku could help you unpack the lease liability repayments. Because if I recall, in the first half, there was an increase because of the Google Fibre lease that was recognised in the [unclear] in the first half. And then there was about a R1.1 billion difference in the first half. And then for the full year, you've done an increase of R1.3 billion. I just would like to understand, is that mostly due to the external lease payments? And what would the normalised number look on a full year basis for those external lease payments? Thank you.

Serame Taukobong

Yes, you're right. The other is the DSL decline.

Nonkululeko Dlamini

So, maybe if I touch on the lease liability, it's still the Google transaction, Nadim, because you'd recall in H1 what would have happened is that the Google transaction started in 2024 and net-net overall we have now received all the payments we were expecting from the transaction in relation to the terrestrial and our part of what we should receive. And we've paid what we needed to pay for the fibre pay. So, net-net, we are back into a neutral position, and the unwinding would continue over the period of the lease agreement.

But what would have then happened, what you see in the 2025 year, is a bit more payments because there were more receipts in the year before. And it really was just the timing difference but the significant impact is in relation to the Google transaction that you see as a movement there.

Nadim Mohamed

Excellent, and if one looks at the external lease payments for Swiftnet, could you give us some guidance as to the quantum of that going forward? Because I think it's only for two months in FY25. For the full year, what's the quantum I'm looking at?

Nonkululeko Dlamini

Yes, the IFRS 16 number in the financials will sit in different places, but if you then take the two months that is now external, which is February and March, and gross it up to a full year, we would in the future years take into account the inflationary impact in line with the long-term agreements in relation to that. And yes, along the way we may renew some leases and some will come to an end. But overall, it's crossing up the two months you see and building the inflation levels that would come in the future years.

Nadim Mohamed

Thank you so much.

Operator

Our next question comes from Jovan Jackson of Fairtree. Please go ahead.

Jovan Jackson

Hi. Good day. Thanks for allowing me to ask a question. Can you hear me?

Operator

Jovan, your line is open. You can ask your question. I suspect Jovan might be having a technical problem. Our next question is a follow-up from Jono Bradley of Absa. Please go ahead.

Jono Bradley

Yes, thanks very much. I just wanted to clarify on the lease cost impact, the 51 cents per share. Can you just remind me what slide exactly should we be looking at to see that? And then, does this include the finance cost saving from the debt that you're paying down? Thanks.

Nonkululeko Dlamini

All right, so we have not explicitly put the 51 cents in a slide. And I was just indicating the impact of that. But if you look in our financial statements, I think it's about note 13, where we have details of the Swiftnet. Let me just go to the financials. It's actually note 12.3, where you then see the details of the Swiftnet and basically the operating elements of it. And if you just take off the 4408, which is the profit on sale, you get to the operations for the 10 months in terms of the external elements. But for the lease related impact, we didn't necessarily put it in the slide. It's information we have in the background. So, you will not see it in a slide explicitly.

Jono Bradley

Okay, just to confirm then, so the 51 cents per share, does that include then taking into account the externalised lease costs? And then just to double check, that doesn't include the interest cost saving, or does it?

Nonkululeko Dlamini

So, it would be the externalised lease cost impact, indeed. As you would see it in the financial statements, we would take into account the depreciation related to the right of use and other elements. And then we do have finance charges impact. So, it is taking into account the full impacts.

Jono Bradley

Okay, thank you. Sorry, I just want to be completely clear. Is that then taking into account the interest cost savings on the debt that you would have paid down in May?

Nonkululeko Dlamini

Correct, correct. Because we have finance charges we're not paying any further because we've reduced the debt.

Jono Bradley

Okay, thank you. That's very helpful.

Operator

Thank you. We've been re-joined by Jovan Jackson of Fairtree. Please go ahead. If you could pause a moment, I do believe that his line is being checked first before he does join us. Thank you. We've been re-joined by Jovan Jackson of Fairtree. Please go ahead.

Jovan Jackson

Hi guys, thanks for the opportunity to ask a question. Apologies for earlier. Just can I ask a very brief question? I guess everyone's asking the same question. We all want to know what you're paying per year for the lease. Can we work it a different way? Can you maybe just tell us the discount rate you got and how long is this lease? So, we can work out what a PMT [?] should be per year.

Serame Taukobong

What's the discount rate?

Nonkululeko Dlamini

Can you repeat the question for us?

Jovan Jackson

Can you give us the discount rate and the term of the lease and we can work out what the PMT is, the cash for the monthly or value of cash flow that you would be paying? Or simply if you can give us the annual lease cost, that would also work.

Serame Taukobong

Can we come back to you on that one?

Jovan Jackson

Sure. And then maybe just coming back. Apologies, I am new to Telkom, so I just wanted to ask you a point of clarification. On your cash flow statement, on your free cash flow slide that you pointed out to us, am I supposed to take it as… okay, the working capital, should we zero that? And then the other, should we zero that as well? Meaning that those don't repeat and then that's a good starting point. Is that what you're trying to say? Maybe I'm just not understanding where all the various write-offs are going.

Nonkululeko Dlamini

So, on the working capital, the R376 million we're showing as improvement is part of the work we've been doing to improve and optimise on the working capital. And we don't expect it to reverse if you zero it out, but we will continue to look for opportunities to continue optimising on inventory. But I think if we take a position that's from the data's factoring, we are largely at the level of R800 million to R1 billion, you could take that as continuing as we continue with our post-paid. And then the inventory may come through as minimal as we continue to optimise. So, you could zero it out and say, when we're at optimal level, we're not going to necessarily see significant working capital improvement necessarily unless there is a very different approach. But yes, we've optimised working capital to a large extent.

Jovan Jackson

Perfect. That makes sense. And the other line? Is that just write-offs that won't repeat again, so that's also a zero once-off number given what you've said now? You said your book is in a good position. The rest of it seems fine, so we shouldn't see more of these impairments going forward.

Nonkululeko Dlamini

Yeah, so if you look at the impairments are you looking at impairments from the ETL perspective.

Jovan Jackson

The 1152 that is in other on your slide 37.

Nonkululeko Dlamini

Oh yeah, those are non-cash items that would normally form part of our financial statements, which may recur to an extent depending on directionally what are some of the elements would be driving. So, if you look at it, we may have impairment in receivables, but we don't expect those to increase a lot. We've got other elements that may be non-cash coming through.

Jovan Jackson

Okay, perfect. Understood. And maybe just one last follow-up. I think I lost you guys earlier with trying to take Madi’s question. He asked the EBITDA margin guidance. That does exclude property sales, right? That's a simple yes or no. I guess you have to repeat what you said earlier.

Nonkululeko Dlamini

So, the EBITDA margin in terms of the property sales we are saying, in this financial year we had R654 million which was once off. And in the guidance we have normalised that out. So, it's not expected to repeat.

Jovan Jackson

When you say normalised, you do expect like an average level of property sales every year? Like a couple hundred million?

Serame Taukobong

Let me try and land you because I think you said you are new. So, what we're saying is on an annual basis we generally do about between R50 million to R100 million in property sales. That's been the normalised trend. What we saw last year, which is in the EBITDA number for this year, is an exceptional amount of about R700 million which was done in property sales. So, if you go to an EBITDA guidance, which gave us a year-end number of 26%, if you normalise to our normal trend, our year-end would be about 25%. That's why the guidance starts at 25% and goes to 28%. So, on a normalised level, because we still have some properties, smaller properties, there'd be R30 million to R50 million odd of properties to be disposed. So, that would be your average rate of disposals, not at the R600 million level. So, that is the normalisation that Nonku is referring to.

Jovan Jackson

Yeah, that makes sense. Thank you very much for taking the time to explain that. I'll hand over to someone else.

Operator

Thank you. Ladies and gentlemen, just a final reminder, if you'd like to ask a question, you're welcome to press * and then 1. We have a follow-up question from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam,

Thank you so much. Given it's very cold in Jo'burg today, I have one more question for my winter soldier there. Serame, can you please give us a sense of… You're definitely winning market share in mobile, right? And how sustainable do you think that is? If the gap, the effective rate between you and the peers like MTN and Vodacom, as long as you maintain that gap, do you think this is sustainable, the fact that you keep winning market share? And the fact that you have a revised distribution or margin arrangement with the likes of Pep and so on. Given that you expect to continue that as well, I suppose what I'm trying to ask is what can derail the winning market share? Thank you. It's very cold.

Serame Taukobong

Thanks, Myuran. So, Myuran, I think for the market to get the fuller picture of the Telkom proposition, it's not just about price. So, what we've been saying to the market is if you look at where the growth is coming from, you must first understand the shape of all our customers. So, Telkom is sitting with about 70% data users. Our competitors, and where the growth is coming, are sitting conservatively at 50% data users, which means that there is an opportunity of customers who are migrating from 2G into 4G and 5G propositions.

And our price points is what is being attractive to those customers. And that is where we've got the sweet point. So, if you do the maths, it means that you've got about 20 to 30 million 2G subscribers who are moving. And where they are moving to is a price proposition where Telkom has got an unbeatable data proposition. And that is where the market is. Now for competition to come down to this pie point means a significant margin drop for them. And that is why we don't have to be dropping our prices any further but have to then acquire these subscribers without eroding value. And I think that's a key that Lunga and his team have now hit to say, how do we acquire without destroying value, but ensuring that we acquire responsibly and maintain our margin growth. And that sustainability, I think we can still hold for another 18 to 24 months.

Myuran Rajaratnam

If I can just follow up. [Overtalking]. Sorry, yes, I have a follow up on that. If I look at the effective rate between you and say, Vodacom, and especially at the headline rate, it looks like it's half the say, Vodacom. And especially at the headline rate, it looks like it's half the rate of Vodacom. And from what you're saying at the sweet spot, it might be even lower. So, the gap is massive. And so, as long as you have that, the only way they can compete is if they drop the prices and reprice the entire base. Is that the right way to look at this?

Serame Taukobong

Very much so, Myuran.

Myuran Rajaratnam

Okay. Thank you so much.

Operator

Thank you. Ladies and gentlemen, it appears we've reached the end of the question and answer session. I will now hand back for closing remarks.

Serame Taukobong

Thank you all for taking the time to join us on this call. We always appreciate your time and your continued support for Telkom. If you have any further questions please do reach out to our team. For those in Jo'burg and the rest of the country, please do stay warm and we look forward to meeting you again. Have a good evening further. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, that concludes today's event. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT